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Current Management Theory and the Demise of Baldwin Piano: A Case Study

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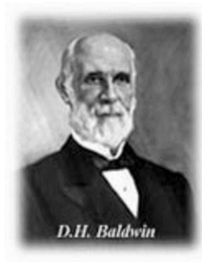
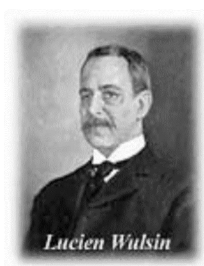


The music products industry was stunned when Baldwin Piano and Organ Company filed for bankruptcy in May of 2001. How could a company with a 139 year-old history—and one of the strongest brand names in the industry—be brought to the brink of dissolution? The press was very critical of Chief Executive Officer, Karen Hendricks, and many within the industry placed the blame squarely on her shoulders. They questioned her lack of knowledge of the music products industry and her inability to make the necessary hard decisions to keep the company profitable. Still, others wondered, could one woman really be solely responsible for bringing an American icon into Chapter 11 bankruptcy in just seven years? Current teachings in management theory provide some insight into the role Hendricks played in the unfolding of the Baldwin Company saga.

The Baldwin Piano and Organ Company



Dwight Hamilton Baldwin began his professional career as a music teacher. In 1862 he seized the opportunity to open a music retail store in Cincinnati, Ohio, and by 1890 he was responsible for manufacturing as well as selling pianos. Upon the death of D. H. Baldwin, bookkeeper and partner Lucien Wulsin was appointed president of the company. During Wulsin's tenure Baldwin expanded to the production of player pianos and exported musical instruments to 32 countries. After World War I, Baldwin introduced its first electric organ under the direction of Lucien Wulsin II. The Wulsin dynasty continued with the appointment of Lucien Wulsin III to the role of president in 1961. Although the company experienced some financial challenges in the 1970s,

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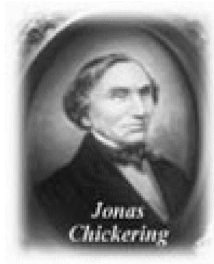


it emerged unscathed thanks to a senior management buyout, and an IPO was made in 1986 under the leadership of Dick Harrison. Harrison decided to step down after serving the company for nearly forty years, and in 1994 Karen Hendricks was appointed President and CEO.

Karen Hendricks

It was not easy for the Baldwin Company to fill the shoes of Dick Harrison. He had served as a strong leader and was part of the cultural heritage of the Baldwin legacy. After an extensive search, an insider suggested Hendricks to the board, and they agreed to interview her. During this interview, they were impressed with what they saw to be a bright, intelligent, energetic woman with many new ideas that could reinvigorate the company. Hendricks came to Baldwin from "Corporate America," having served Proctor and Gamble for over twenty years in such important marketing campaigns as Crest toothpaste and Vidal Sassoon hair products. Her most recent position had been as Executive Vice-President and General Manager of the Dial Soap Division—an enterprise generating over $500 million in sales. Many in the industry were enthusiastic about her joining the company, including the Music Trades, a respected trade journal that said of her, "…[Karen Hendricks] is in many respects a kindred spirit of Lucien Wulsin. Drawing on broad management experience in engineering, research, development, and marketing, she hopes to expand Baldwin by instilling sophisticated management discipline."[1] Hendricks joined the company with an appreciation of music and music making and a plan to modernize the corporate structure of the company.

Leadership

There are, undoubtedly, as many leadership styles as there are leaders. One definition of this concept of leadership is, "The process of guiding and motivating people to work toward organizational goals."[2] Within this framework, there are *transactional* leaders—also defined as managers—and *transformational* leaders. The former are administrators who place an emphasis on establishing goals and clarifying roles and task requirements. These supervisors generate productivity by clearly outlining what they expect of employees and devising reward systems that elicit the appropriate behaviors. A transformational leader, on the other hand, is one who "inspires followers to transcend their own self-interests for the good of the organization and who is capable of having a profound and extraordinary effect on his or her followers."[3] There is no doubt that Karen Hendricks was hired to be a transformational leader. The company was excited about the new ideas she would bring with her. Former Chairman Dick Harrison believed that "Karen has a lot to teach us all…we think the combination of her business experience and Baldwin's piano expertise will mean great things for this company."[4] Hendricks did indeed bring new initiatives to the company. In 1999 a new polyester finish was introduced at the NAMM show and was very well received. Early in her tenure she also developed the product strategy of selling pianos under the Baldwin, Chickering and Wurlitzer names, at different price points and quality levels. This would allow the company to compete in several markets while protecting the "Baldwin" brand name—a strategy that was warmly received by the Board of Directors. Hendricks also introduced the technique of a synchronous manufacturing method where the pianos would move continuously through the line of production, rather than in batches as had been the previous practice. This decreased the time needed to produce each piano and saved the company significant resources.

Unfortunately, these initiatives were not as well received as they might have been. In his management text, Robbins describes a "Visionary Leader" as one who has "the ability to create and articulate a realistic, credible, attractive vision of the future for an organization *that grows out of and improves upon the present*."[5] In Hendricks' enthusiasm for making changes she seems to have missed the crucial element of valuing the past and present accomplishments of the company. Very early during her term in office she made it clear to the management-level employees that anything that had been done in the past was not worthy of consideration. This was demoralizing for the many long-term employees of the company and led to a distrust and lack of support from these "lifers" who felt devalued and unappreciated.

Still more insights into leadership styles can be found in the Ohio State Studies[6] which were undertaken to identify different dimensions of leadership behaviors. Having started with over one thousand ideas, they were able to narrow the field to two significant categories which covered most of the characteristics of leaders as described by employees. These two categories were labeled Initiating Structure and Consideration. Leaders who were ranked high in Initiating Structure believed in clarifying roles of employees, setting goals, giving people clear tasks and emphasizing creating and meeting deadlines. Those who espoused the Consideration characteristics were much more focused on employees. These leaders believed that treating employees with respect and looking out for their well-being was of utmost importance and ultimately good for the company. This study found that a leader could be ranked high in both categories, and that someone described as being high in both was generally successful, although there were circumstances where this type of leader did not ultimately create the best results. A related study done at the University of Michigan at about the same time defined leaders as either Production-Oriented or Employee-Oriented (but not both). As the names imply, the former was more interested in getting the job done, and the latter held more of a focus on employee feelings and valued individuals. This study found that Production-Oriented managers tended to be associated with unhappy, less productive employees, and a better more productive environment was created when employees felt appreciated.

There are many articles about employee treatment at Baldwin during Hendrick's term in office. It is apparent from these articles that she was a Production-Oriented leader, and wanted the job done no matter how it was accomplished. This created a lot of dissatisfied employees, especially at the management level and created chaos in the manufacturing plants. Employees watched as long-time executives in the company were treated without respect. Hendricks' treatment of Dick Harrison, a well-respected, long-time employee at corporate headquarters, was known throughout the company. Also, no one could help but notice the frequent turnover of the high level administration—twenty vice-presidents and top managers in seven years!

Culture

Every organization has a distinct personality created by the management, employees, and product (or service) being fashioned. This unspoken set of social mores is know as "corporate culture" and is distinct and unique for every company. According to Dressler, culture can be defined as "the characteristic traditions, norms, and values that employees share."[7] The culture of an organization may be classified as weak or strong. Characteristics of a strong culture include cohesiveness, loyalty, and low employee turnover. In fact, a strong culture has been identified as one of the most important determinants in employee retention.

It is evident that there was a strong, well-defined culture within the Baldwin Company before Hendricks' arrival. Baldwin had a stalwart tradition of loyalty with low turnover rates among employees and management alike. It is no coincidence that there had only been seven CEOs of the company in its 139-year history. Baldwin had always used an open-door policy and there was a strong value placed on employee insights and relationships with retail dealers. Promotions had generally come from within the company, providing continuity and incentive for motivating talented employees. Many people spent their entire careers at the company and appreciated the "family" atmosphere.

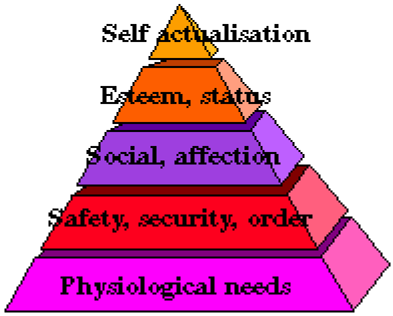
Once a culture—especially a strong culture—has settled in place it is usually very hard to change. It often requires a dramatic event, or a long, concerted effort, to significantly change people's attitudes. Unfortunately, Hendricks' sophisticated management discipline did not seem to work with the culture that was strongly entrenched at Baldwin. The open-door policy and free flow of ideas came to an abrupt halt when Hendricks moved in, closed her door, and parked a secretary in front of her office to act as a gatekeeper, allowing no one in without an appointment. This seemingly simple change sent a very clear message to employees. When someone did procure time with Hendricks it was doubtful that person would miss the only decoration hanging on the wall—a parchment picture of a Samurai soldier[8]—again, a very clear message being sent in what had been a family environment.

Apparently, Hendricks failed to realize that a management style that served her well in the realm of a large corporation was not appropriate for a close-knit music products company. In fact, the lack of understanding of the whole music products industry may have been the single factor that made Hendricks' leadership of the company less than successful. Dealing with packaged goods being sold to almost every store in the country is very different from working with dealers who must instill trust in their customers before they are likely to make a major purchase such as a piano. The relationship between the dealers and Baldwin headquarters had always been strong and positive. The company had always sent pianos on consignment to the dealers, allowing them to carry sufficient inventory without excessive debt load. Chris Climer, a Baldwin dealer, had said of the company, "I've always felt our relationship with Baldwin as something of a marriage"[9]—a sentiment felt by many dealers. Hendricks' response to this particular comment was, "I'm not part of that marriage—my job is to handle the board of directors." As can be imagined, her relationship with the dealers started to erode early on, and ended up in a complete shamble—as evidence by a scathing letter sent to Hendricks and printed in the December 2001 issue of the *Music Trades* magazine. The letter seriously questioned her ability to manage the company.

Motivation concepts

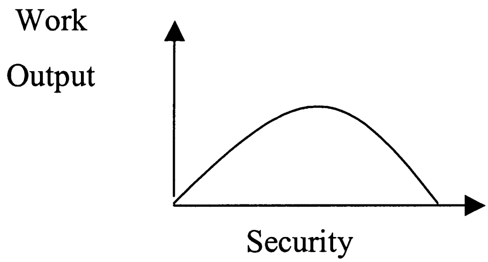
What drives employees to work has long been an issue of concern to managers and a topic of study for academics. Two of the more traditional theories may provide insights into why employees at Baldwin were not motivated enough to pull the company through its crisis situation. The first theory, presented by Douglas McGregor in the 1950s[10], states that managers basically view their employees in one of two ways, and that the perspective taken by the manager will control actions taken toward their employees. Theory X managers believe that employees dislike work and must be coerced or threatened to be productive. They see employees as seeking formal direction whenever possible and believe employees are looking for security above all other factors. On the other hand, Theory Y managers believe that employees view work as natural as rest or play. They see employees as being capable of using self-direction and self-control and seeking and accepting responsibility when given the opportunity. They also trust that employees can contribute good ideas and creative solutions to the company problems that they are closest to.

Amongst the best known theories of motivation, and one studied by almost every business student, is the Hierarchy of Needs Theory presented by Abraham Maslow.[11] He believed that people had five levels of needs and represented this in the famous pyramid that has become associated with his name.



In researching the treatment of employees at Baldwin, one can assume that Hendricks had a Theory X view of employees. She was said to have micromanaged every department and did not seek suggestions from employees, nor did she give credit for those suggestions that were implemented. As stated in a recent *Music Trades* article on the company, "having spent her business career in the packaged good industry where decisions are based on focus group research and analysis of supermarket checkout counter data, she found it unimaginable that a manufacturer would actually call a dealer to ask for advice about a product or a marketing program. This made for immediate clashes with the Baldwin sales and marketing team that viewed talking with dealers as an integral part of the job."[12] This research-based methodology might have brought a new dimension to the company if it had not been introduced as a threat to the current system and seen as a way to devalue employee participation in the decision-making process.

Another issue plaguing the workforce was Hendricks's lack of concern for employees' needs as shown in Maslow's hierarchy. Having already fulfilled the physiological, safety and social needs, many of the upper-level management at corporate headquarters were undoubtedly looking to find reward in the self-esteem and self-actualization areas. As outsiders were brought in for the upper-level positions and ideas based on years of experience were ignored, these talented employees were not finding that positions with the company could fill their needs for respect, recognition and a chance to use their talents and experience. The replacement of lifetime managers in rapid succession, turnover of new employees and lack of support for dealers led to a lack of stability and management chaos in a company that was known for its constancy. Downsizing, partial closures, and plant closings also led to the sense of a volatile environment. This sense of instability in turn decreased production, as would be expected according to the following chart from the *Academy of Management Journal*.[13]



Investment perspective

Current thinking in strategic human resource management espouses the concept that the workforce should be viewed as a valuable investment. Rather than seeing paychecks being issued as a part of production expense, employees should be seen as the means to create and sustain a competitive advantage over other companies. It is well known that competitors can duplicate equipment and raw materials, but "a maintainable advantage usually derives from outstanding depth in selected human skills, logistics capabilities, knowledge bases, or other service strengths that competitors cannot reproduce."[14] When a manager recognizes the considerable base of knowledge in an experienced workforce and the significant expense of recruiting and training new personnel, it is easy to see that good employees are valuable to any company.

It is clear that the management style used by Hendricks did not reflect a sense of value being placed on her employees. The hiring of four manufacturing vice-presidents, four marketing heads, four chief financial officers, four contract electronics division managers and four human resource managers within seven years not only created a significant expense during the search and hiring phase for these positions, but also meant that these people had to be trained and become acclimated to the business and the industry—especially considering that few of them had experience at Baldwin or anywhere in the music products industry. The lack of productivity during changeover periods alone would have affected the company and must have created turmoil for all personnel in these departments.

Conclusion

The intent of this research was to attempt to understand what went wrong with this quintessentially American company. Through the study of current management theories it becomes evident that Hendricks may indeed have been largely responsible for the demise of this organization. Although she may not have been a bad leader—and will probably go on to lead other companies—it does seem that her perspectives simply did not mesh with the company she was hired to lead. The culture at Baldwin when she came in was strong enough that it would not allow for a radical change, and the resultant clash that ensued eventually lead to the creation of so much chaos at the company that it simply imploded from internal stress—not the foreign competition that was targeted by Hendricks as the cause for Baldwin's woes.

As time moves on it will be interesting to see how this company will progress under the auspices of Gibson Guitar and Henry Juszkiewicz, the new owner of the company. Recent initiatives, including building a blue piano for the Handy Blues Awards[15], and a promotional alliance with the A. J. Foyt Indy racing team,[16] are radical initiatives for a company steeped in a conservative tradition. However, it is apparent that Juszkiewicz plans to maintain—and benefit from—the strong company culture. He demonstrated an appreciation for this culture by organizing the first ever Baldwin "reunion" last May. Over 170 Baldwin alumni assembled to show support for the company and reminisce about the company's history and "good-old-days." The reunion included recognition of long-time employee loyalty (the record being 51 years) and even honored three former CEOs. Not surprisingly, Hendricks did not attend the event. A similar reunion is already planned for next year, indicating that the new management is wisely capitalizing on the extraordinary culture still in existence at Baldwin, and appreciates it for the strong asset that it is.

Can Henry Juszkiewicz recreate the success story of Gibson—another American icon that he rescued from near disaster—and bring these two American manufacturers together to create synergies that will enhance both companies, or is the culture associated with these two diametrically opposed products too wide a gap for even this proven visionary leader to bridge? This will be the interesting story to watch unfold as the next chapter in the legacy of the Baldwin Piano and Organ Company is written.

Endnotes

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[15] "Blue Baldwin Debuts at Handy Awards," *The Music Trades* vol.150 no. 6 (July 2002): 57.

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